

HTF Cost-Effectiveness Committee
Meeting Summary
July 12, 2012

Plan for Survey of Other States

Commerce has contracted with WSU to conduct a third-party survey and assessment of cost containment policies adopted by other states with comparable programs. Sally Zeiger Hanson shared a draft of the survey questions, protocol, and a prospective list of states to be surveyed. Committee members provided comments and suggestions regarding both. WSU will begin gathering information in August and will provide a final report to Commerce in October.

Low-Income Housing Tax Credit Program Cost Policy

Steve Walker and Leslie Price, from the Washington State Housing Finance Commission, described their process for developing the current LIHTC cost policy, which was implemented with the 2012 LIHTC allocation process.

Historical data from the past three years' tax credit allocations, about 100 projects, provided the primary basis for decisions. WSHFC reviewed the data for significant variances and to determine whether certain cost factors should be considered or excluded when analyzing costs.

Key elements of WSHFC's current LIHTC cost policy are as follows:

- Annual cost limits are established, based on historical data from prior two years' allocation cycles
- Cost limits apply to total development cost, but are based on a per unit cost calculation
- Cost calculations exclude land and capitalized reserves.
- Cost limit calculations are based on the bedroom size of units
- Separate limits are established for King County and the balance of state, due to distinctly higher costs in King County (WSHFC recognized that other urban and/or remote regions also have higher costs, but didn't have enough data to establish another set of limits)
- Supportive housing projects are allowed to use the King County limits, due to their high cost and the priority of those projects
- Projects may request a waiver of the cost limit *prior to* application if there is reasonable justification, including unique development characteristics of the project.

WSHFC acknowledged some of the following challenges, observations, and lessons learned in implementing a cost containment policy:

- There is a broad range of factors that can affect costs
- There is a high degree of variability of certain costs, that may or may not be able to be explained (e.g. land acquisition, architectural & engineering costs)
- Certain costs are dictated by other fund sources and, consequently, cannot be controlled

- Cost policy needs to take into account potential negative impacts (e.g. penalizing projects of a certain type/size, driving development to/from certain areas, etc.)
- Cost limit does drive costs down, but challenge is to ensure not at expense of quality
- Cost can't be viewed in only one way (e.g. cost per unit, cost per sq. ft) or in isolation of other factors, it must be viewed in context with the rest of the "story"
- There is no perfect policy and it is essential to allow some degree of flexibility
- Policy priorities and cost policies sometimes conflict with each other
- Cost policy must be understandable to users
- Cost policy must be manageable for funder, taking into account staff/technical capacity
- Data should continue to be analyzed and used to refine policy as it evolves
- Funder policies can and should create or incentivize cost reductions at other points in process, not just in the application process

WSHFC will continue to analyze data to determine whether additional distinctions are warranted for other geographic areas or project types, and to assess whether other modifications to the cost policy are warranted for future allocations.

Commerce Next Steps

Commerce will begin looking at HTF historical data to determine whether there are certain project costs, project types, or other characteristics that may need to be taken into account in establishing a cost policy. To the extent practical, Commerce will use data and other information gained from WSHFC's process; however, the range of HTF projects is broader than that of the LIHTC program, so Commerce cannot rely entirely on WSHFC data.